

PHILIP MORRIS & CO., LTD. INCORPORATED

FINANCIAL REPORT

FISCAL YEAR ENDED MARCH 31, 1940

1002330130

New York, N. Y.
June 7, 1940

To the Stockholders of
PHILIP MORRIS & CO. LTD., Incorporated:

The Consolidated Balance Sheet of your Company as of March 31, 1940, and its Consolidated Income Statement for the fiscal year ended on that date, are submitted herewith.

Consolidated net earnings for the year were \$7,435,766.07 as compared with consolidated net earnings of \$6,551,296.76 for the previous fiscal year.

Bank loans on March 31, 1940, amounted to \$9,000,000.00 against which payments aggregating \$2,000,000.00 have been made to date.

Our continued growth is due in part to the active support of Philip Morris Brands by our Stockholders and their friends, which is an invaluable aid. Let me urge, therefore, whenever the opportunity occurs that you not only "CALL FOR PHILIP MORRIS," but also try for yourself and recommend some of our other principal brands, among which are:

MARLBORO Cigarettes
ENGLISH OVAL Cigarettes
REVELATION Smoking Tobacco
BOND STREET Smoking Tobacco.

Sincerely yours,

O. H. CHALKLEY,
President.

Cash on hand and
Accounts receivable
Customers (less
doubtful accounts)
Others
Inventories of (less
subject to duty),
factured stock
Cash sinking fund
(Note 2)
Investments, at a
Prepaid expenses
Other investments
Fixed assets, at cost
Land
Buildings, machinery
Less, Allowances
Good will, trade-n

NOTES:

1. Net current operations.
2. The balance preferred stock an amount and the amount is \$367,597.
3. Shares of 5 of preferred share if received.
4. As at March certificates, common stock.
5. As of March a stock dividend common stock 30, 1943 shares.
6. The patent

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INCORPORATED (Virginia)

INCORPORATED (England)

March 31, 1940

LIABILITIES:

Notes payable, banks		\$ 9,000,000.00
Accounts payable:		
Trade creditors	\$ 301,909.33	
Dividend payable June 1, 1940 on 5 per cent convertible preferred stock, Series A	10,562.50	
Others	152,394.09	664,865.94
Provision for taxes, additional compensation, advertising, redemption of premium certificates and coupons, etc.		2,997,661.07
TOTAL CURRENT LIABILITIES		12,562,527.01

CAPITAL:

Capital stock:			
Cumulative preferred, par value			
\$100 per share:			
Authorized:			
100,000 shares 5 per cent convertible, Series A			
Issued:			
77,873 shares	\$7,787,300.00		
Less, Converted into common stock or redeemed:			
69,420 shares	6,942,000.00		
Outstanding: 8,453 shares (Note 3)	845,300.00		
Common, par value \$10 per share:			
Authorized:			
1,000,000 shares			
Issued and outstanding:			
882,396 1/2 shares (of which 276,000 shares were issued at \$4 per share and 606,396 1/2 shares were issued at \$10 per share) (Notes 4 and 5)	7,167,965.00	8,013,265.00	
Surplus:			
Capital	10,439,989.30		
Earned	11,138,991.91	21,578,981.21	29,592,246.21
			<u>\$42,254,773.22</u>

This balance sheet, were \$115,100.29 and \$217,616.74, respectively. The net results of

the year then ended. Under the terms of issue of the 5 per cent cumulative convertible stock or redemption of preferred stock, within three months after April 1 of each year, of the preceding fiscal year (after deduction of the amount of all accrued dividends paid during the year). The amount to be set aside within the three months ending July 1, 1940

common stock on the basis of one and one-half shares of common stock for each share of preferred stock if redeemed thereafter and on or before June 1, 1941, and at \$105.00 per share plus accrued dividends upon involuntary liquidation.

In the conversion of 5 per cent convertible preferred stock, Series A. Of such scrip and 1,150/100 become void on December 31, 1947, unless surrendered for shares of common stock or of shares to be exchanged upon surrender of the scrip certificates.

Such dividend scrip certificates, Series A, issued November 15, 1938 in connection with the Board of Directors, these shares shall be reserved until exchange therefor of common shares not issued upon exchange at or prior to the close of business on November

of \$145,000 plus interest, liability for which is not conceded by the company.

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COMPARATIVE CONSOLIDATED STATEMENT OF INCOME

for the years ended March 31, 1940 and March 31, 1939

	<i>For the Years Ended</i>	
	<i>March 31, 1940</i>	<i>March 31, 1939</i>
Net sales	\$73,344,158.84	\$64,238,661.01
Cost of sales (including provision for depreciation, for the year ended March 31, 1940, \$278,499.72; for the year ended March 31, 1939, \$235,205.62)	56,578,663.07	49,557,921.47
Gross profit from operations	16,765,495.77	14,680,739.54
Shipping, selling, general and administrative expenses (including provision for depreciation, for the year ended March 31, 1940, \$54,966.99; for the year ended March 31, 1939, \$48,917.08)	7,190,935.14	6,268,621.86
Net profit from operations	\$ 9,574,560.63	\$ 8,412,117.68
Add:		
Dividends received	\$ 86,620.49	\$ 61,089.28
Other income	44,760.59	46,546.38
	\$ 131,381.08	\$ 107,635.66
	\$ 9,705,941.71	\$ 8,519,753.34
Deduct:		
Interest paid	\$ 107,595.96	\$ 64,697.99
Provision for additional compensation to officers and employees, in accordance with authorization of stockholders at meeting of July 20, 1937	530,695.41	473,028.65
Adjustment for foreign exchange fluctuations	34,128.10	5,788.40
Other deductions	2,832.30	7,506.46
	\$ 675,251.77	\$ 551,021.50
Net income, before provision for federal income tax	\$ 9,030,689.94	\$ 7,968,731.84
Provision for federal income tax	1,594,923.87	1,417,435.08
Net income for the year	\$ 7,435,766.07	\$ 6,551,296.76

Note: Effective as of April 1, 1939 certain changes in accounting treatments were adopted. For purposes of comparison the consolidated statement of income for the year ended March 31, 1939 has been restated as above to conform to the new accounting treatments.

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31, 1939

Ended

March 31, 1939

64,238,661.01

49,557,921.47

14,680,739.54

6,268,621.86

8,412,117.68

61,089.28

46,546.38

107,633.66

8,519,753.34

64,697.99

473,028.65

5,788.40

7,506.46

551,021.50

7,968,731.84

1,417,435.08

6,551,296.76

CONSOLIDATED EARNED SURPLUS for the year ended March 31, 1940

Balance, March 31, 1939	\$ 8,160,849.34
Add, Net income for the year ended March 31, 1940	7,435,766.07
	<u>15,596,615.41</u>
Deduct:	
Cash dividends declared:	
On 5 per cent convertible preferred stock, Series A	\$ 83,806.25
On common stock	4,370,897.25
	<u>\$4,454,703.50</u>
78 full shares of common stock issued in exchange for 156 common stock dividend scrip certificates, Series A, which certificates were issued in connection with stock dividend paid November 15, 1938, at par value	780.00
Premium on 214 shares of 5 per cent convertible preferred stock, Series A, redeemed	2,140.00
	<u>4,457,623.50</u>
Balance, March 31, 1940	<u>\$11,138,991.91</u>

CONSOLIDATED CAPITAL SURPLUS for the year ended March 31, 1940

Balance, March 31, 1939	\$ 8,903,019.30
Add, Excess of par value of 18,082 shares of 5 per cent convertible preferred stock, Series A, converted into common stock over par value of common stock issued therefor	1,536,970.00
Balance, March 31, 1940	<u>\$10,439,989.30</u>

To the Board of Directors of Philip Morris & Co. Ltd., Incorporated:

We have examined the consolidated balance sheet of PHILIP MORRIS & CO. LTD., INCORPORATED and its wholly owned subsidiary, Philip Morris & Company, Limited (England), as of March 31, 1940, and the comparative consolidated statement of income for the fiscal years ended March 31, 1940 and March 31, 1939 and the statements of surplus for the fiscal year ended March 31, 1940, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the consolidated position of the company and its English subsidiary at March 31, 1940; and the consolidated results of their operations for the two fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, May 27, 1940.

LYBRAND, ROSS BROS. & MONTGOMERY.

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3.94
1.07
7.01

DIRECTORS

J. E. ARCHBELL	A. E. LYON
GEO. P. BRAUBURGER	H. E. RIDDELL
O. H. CHALKLEY	K. H. ROCKEY
L. G. HANSON	W. B. RYAN, JR.
J. J. SWITZER	

OFFICERS

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A. E. LYON	First Vice-President
W. C. FOLEY	Vice-President
T. F. GANNON	Vice-President
W. H. HATCHER	Vice-President
W. E. LIEBETRAU	Vice-President
J. J. SWITZER	Vice-President
L. G. HANSON	Secretary Treasurer
W. S. ROULHAC	{ Assistant Secretary Assistant Treasurer

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46.21
73.22